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State of Connecticut General Assembly

Written Testimony

Commerce Committee Public Hearing

Bill 5575

#### An Act Concerning A Grant In Aid For The Women's Business Development Council (WBDC)

Thank you Senator Hartley, Representative Perone, Senator Crisco, Representative Vargas, Senator Franz, Representative Camillo and esteemed committee members. It is an honor to speak before you today. My name is Fran Pastore and I am the Founder and CEO of the Women's Business Development Council. I am here today to request funding in the amount of \$500,000 to support WBDC Capital, a new program to provide microloans to women entrepreneurs and business owners in Connecticut.

#### A Partnership in Support of Women-Owned Business of Connecticut

While women owned small businesses are expected to create almost 60 percent of projected 18 million new jobs to be created by 2018, access to capital remains the biggest barrier to building and sustaining a small business.

WBDC Capital was created specifically to address the inequality faced by women business owners in securing the financing needed to launch and grow small businesses. WBDC Capital will offer loans for clients in need of capital of up to \$50,000. Small amounts of working capital are virtually unavailable in Connecticut to the women-owned small business.

#### The Challenges Faced by Today's Woman Entrepreneur

Those seeking capital to start or grow their small business in Connecticut, particularly women and minorities, found the availability of capital radically diminished:

- In 2007 banks reached an all-time high in extending small business loans of \$100,000 or less to 120,521 small businesses. In 2010, three years later, that level dropped precipitously, to only 34,573 small businesses a 71% drop;
- 30% of all businesses in the state are women owned, but they obtain only 4% of business loan dollars;
- In Fairfield County, New Haven and Waterbury lending rates for loans under \$100,000 parallel the statewide decline of 70% or more.
- Few if any organizations/institutions provide micro loans under \$50,000 to small businesses, particularly early stage.

The Assets & Opportunity Scorecard, published by the Corporation for Economic Development (CFED) indicates that Connecticut has significant challenges in creating a more favorable environment for micro and small businesses, particularly for persons with low-incomes, minorities and women. Specifically, the state ranks near or at the bottom in the following

categories: state business ownership by gender (50); small business ownership rate (50); small business ownership by race (38); private loans to small businesses (42); and business creation rate (51).

The issue of access to working capital for women is also complicated by a long history of lending institutions' practice of deeming women applicants as not credit-worthy. Let's not forget that it was only 1988 when a woman could finally secure a loan for commercial purposes without the need for a male co signer! Women typically face harder financial times when burdened with crises such as divorce, single parenthood, job loss, or health issues, and those burdens often manifest as lingering, crippling debt that can negatively impact credit scores. Many low income women have no credit history at all, presenting yet another barrier to capital. And as our experience shows, women have not historically had the same access to business-related training, education and networking opportunities as men have had. All these factors have created a systemic disadvantage for women and- ultimately- their ability to be gainfully self-employed and accumulate wealth.

WBDC Capital merges two strategies to overcome these gender barriers. Our existing entrepreneurial development programs are specifically designed to bridge the gender gap in education and training, while the microloan program has been recently created to not only provide access to working capital, but to also help women build their credit worthiness so that when their businesses need larger amounts of capital from traditional banks, they can list WBDC Capital as part of their credit history.

### **The Need for WBDC Capital in Connecticut**

The development of WBDC Capital was spurred by the lack of success our clients were experiencing in accessing loans throughout the state. WBDC has been working with existing clients to prepare loan applications to traditional and non- traditional lenders as well as the Small Business Express Program-where it is my understanding that less than 15% of all grants and loans went to women. Specifically, with regard to the SBE, 11 WBDC clients have secured more than \$3M in capital. However, the vast majority of our clients simply do not have the match funding for the grant, the money to cover the legal fees or the collateral to secure the loan.

Their collective experiences illustrated to WBDC that it needed to do more to improve our clients chances at securing loans, as well as to offer loan products in amounts that were appropriate for where our clients were in their business development stages (start-up, established, etc.). WBDC was also receiving feedback from clients through our SBA program evaluation data that many were intimidated by both the loan application process, and the prospect that they would default on loans because their businesses weren't successful.

Both sets of clients (loan applicants and prospective loan applicants) informed WBDC directly that they needed smaller loans than what was being offered by the usual sources, and that if they had access to loans under \$10,000, they would be more likely to apply. This has led to the decision to offer microloans up to \$5,000 in the first phase of the program in 2016, with an expansion planned for the second phase up to \$10,000.

The design of the microloan initiative- including the loan fund's policies and procedures - have been developed using the U.S. Treasury's guidelines and best practices for Community Development Financial Institutions. WBDC is not yet a CDFI, but has received a technical assistance grant from the CDFI program in order to develop the formal policies, procedures and guidelines for loan funds operations and lending in preparation for receiving CDFI certification.

WBDC Capital borrowers will enter the financial mainstream with microloans that build a positive credit history and provide the working capital needed to expand operations and hire or retain employees. We strongly encourage the state to join us in this effort with a cash infusion to WBDC Capital of \$500,000 to deploy. This concludes my prepared statement. Thank you for your commitment to Connecticut's Small Businesses and for giving me the opportunity to speak to you today. I would be pleased to answer your questions.

